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SUBJECT: AUSTRALIAN PLANS FOR CLEAN ENERGY DEVELOPMENT

REF: A. CANBERRA 212

[1](#)B. SYDNEY 64

[1](#)C. 08 CANBERRA 1278

[1](#)D. 08 CANBERRA 898

[1](#)E. 08 CANBERRA 701

[1](#)1. (SBU) Summary: Australia's plans to encourage investment in clean energy are based on three major initiatives: the Carbon Pollution Reduction Scheme (CPRS), the Mandatory Renewable Energy Target (MRET) and the National Low Emissions Coal Initiative (NLECI). Australia is a major coal user and the world's largest coal exporter, so has strong incentives to preserve a place for clean coal technology in Australia's energy mix. Internationally, Australia is sponsoring a Global Carbon Capture and Storage Institute (GCCSI) to assist countries in developing clean coal and carbon capture and storage (CCS) projects. Australia also has abundant renewable resources - solar, wind, wave, and geothermal - but growth rates in these areas have been modest. PM Rudd must continue to support renewable energy while promoting clean coal in the face of ongoing criticism that Australia is not doing enough to either reduce emissions or project jobs. End Summary.

[1](#)2. (SBU) Australia is a significant energy user, with per capita energy use equivalent to or surpassing most other OECD countries, including the U.S. It has a CO2 intensity slightly higher than the U.S. as well. Coal-fired power generates 80 percent of Australia's electricity, a situation made worse by the use of dirty brown coal in many power plants as the more expensive high quality black coal is exported to Asia. Australian Bureau of Agriculture and Resource Economics projections in late 2006 show consumption growing to 8162 petajoules of energy by 2029, averaging a growth rate of 1.5 percent per year. Australia produced more than 17,000 petajoules (more than three times domestic consumption) of primary energy in 2006-2007, showing how important energy is as an export.

Putting A Price On Carbon

[1](#)3. (SBU) The central element in shifting to a cleaner energy future is the Carbon Pollution Reduction Scheme (CPRS) which establishes a national cap-and-trade emissions scheme to reduce overall emissions by 60 percent by 2050. Post has

reported previously on the travails of the CPRS (reftels) but it is worth noting here that, under the current CPRS plan, a large number of energy producers will receive some degree of compensation, either through adjustment payments to electricity generators, free permits (25 percent of the total initially) for emissions-intensive trade exposed industries, or the A\$750 million coal adjustment fund. While there will be immediate increased costs for energy producers, only those companies not eligible to receive one of these forms of compensation will feel a serious bite from emissions trading early on. Details of the plan are still being negotiated, but it is unlikely that the scheme will provide a strong impetus for conversion to cleaner energy sources in the early stages.

Cleaning Up Coal

14. (SBU) The second most important strategic goal is the conversion of Australia's emissions intensive coal industry to a cleaner model. As Australia's leading commodity export, which generated A\$45 billion in export earnings in 2008 and employs tens of thousands, the coal industry is too important to shut down. In addition to direct compensation mentioned above, the government is pushing clean coal technology through a range of initiatives. Internationally, the GOA is pressing ahead with its proposed Global Carbon Capture and Storage Institute initiative. The GCCSI, still under development and several months behind schedule, is funded with a federal commitment of A\$100 million per year and is intended to provide partners with access to best practices,

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data and analysis, legislative and regulatory models, and expertise to enable them to accelerate the rate of deployment of clean coal plants. The GCCSI is one of PM Rudd's priorities and it is expected he will continue to press for the U.S. and others to join the group at every opportunity. Domestically, the most important activity is the National Low Emissions Coal Initiative (NLECI) which provides A\$500 million over eight years to assist industry in developing clean coal technologies. Key focus areas are a coal research program, carbon mapping and infrastructure planning, a pilot coal gasification plant in Queensland, two pilot post-combustion capture plants in New South Wales and Victoria, and an Australia-China joint coordination group on clean coal technology. Combined with assistance under the CPRS, Australian coal companies should see at least A\$1.25 billion from Canberra. Sources at the Australian Coal Association have told us they believe that the government is preparing to reveal a multi-billion dollar commercial scale demonstration project either this year or next. The fate of the U.S. FutureGen program is still issue of great interest in Australia, which will want to see how we address the challenges of a large federally-funded program if they are truly considering a similar project. Coal industry contacts have expressed concerns to us that Rudd's continued highlighting of the GCCSI has hurt the chances of maintaining momentum in the NLECI.

15. (SBU) The federal effort to sustain the competitiveness of the coal industry has been matched by the industry itself and the state governments. The primary vehicle is the COAL21 fund, set up by companies with a commitment of over A\$1 billion to support clean coal development. The largest chunk of this funding is a \$300 million commitment to the ZeroGen integrated gasification combined cycle (IGCC) pilot project in Queensland (ref B). States are also contributing funding for projects, but not at the same level as the federal government. Victoria plans to spend approximately A\$130 million on cleaner coal projects, and New South Wales and Queensland are contributors to local projects as well.

Renewable Plans

16. (SBU) The third leg in the clean energy triad is the development of truly clean technologies like solar, wind, geothermal, wave power and other renewable energy sources. Although these technologies generate a small fraction of Australia's electricity (less than 5 percent in 2008), the intent is to mandate a steady increase until they make up 20 percent of overall generation in 2020. The Mandatory Renewable Energy Target (MRET) will replace a range of variable state-level renewable energy portfolio plans with a single national target. The MRET legislation is still being developed, in consultation with industry and lobbying groups, but is nearing its final form and is expected to be passed this year. The primary federal funding vehicle to encourage renewable is the Renewable Energy Demonstration Program, a \$435 million grant program to accelerate commercialization Q\$435 million grant program to accelerate commercialization and development of renewable technologies. In addition, the government has set up an Energy Innovation Fund for development of clean tech, including A\$100 million for solar thermal and photovoltaic systems and A\$50 million for other projects over four years. Finally, the government has provided A\$50 million for a special geothermal drilling fund to write down drilling costs in Australia's rapidly growing "hot dry rock" geothermal projects (ref E). Stricken by drought, Australia's hydropower capacity has grown minimally over the past decade, and further decreases in rainfall are projected, making hydro a less-attractive option in the long run. Established renewables like wind and solar water heaters have seen significant growth rates this decade with government subsidies, but growth has flattened out as credit has dried up. Wood, wood waste, bagasse, and landfill waste gas round out the renewable portfolio, but do not receive major government funding. The government's A\$42 billion stimulus package, passed in February, included funding for insulating houses and rebates for solar hot water heaters,

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but no direct additional funding for renewable technologies or transmission system improvements.

Action At The State Level

17. (SBU) As with coal, the private-sector and state investment in renewable energy is growing alongside federal funding. Australia's six state governments have implemented a series of clean energy policies of their own. For example, all state governments have implemented or announced feed-in tariffs to encourage household uptake of solar or wind power. New South Wales, Victoria and Queensland have set independent renewable energy targets. Queensland electricity suppliers must provide an additional 18 percent of their electricity from natural gas. New South Wales and Queensland have each appropriated funds to pay for energy efficiency upgrades to homes and business, but Queensland officials told Sydney ConGenoff in March that those funds remain under subscribed Victoria released in March 2009 a plan to provide A\$1 billion in subsidies and feed in tariffs to support solar development, alongside up to A\$56 million for new solar energy plants. The Australian Capital Territory has introduced feed-in tariff s as well this year, expects to see significant growth in use of residential solar and has plans to build a solar power plant. How such efforts will be handled under the national MRET scheme remains to be seen, but most expect a smooth transition of these projects into the new system once it is approved by Parliament and the Coalition of Australian Governments (COAG). Examples of significant industry investment are growing as well. Australian and international geothermal energy "prospectors" were expected, as of mid-2008, to spend approximately A\$830 million between 2002-2013 on geothermal projects.

18. (SBU) Comment: Australia is making a serious push, given its size, to speed the uptake of clean technologies in an

effort to reduce greenhouse gas emissions. At the same time, the overall scale of all major programs is only a few billion dollars. The Rudd government's upcoming budget will be an important signal for clean energy development - if growth in clean energy, and cleaner coal, funding is significant, then there is hope that the industry can begin to achieve the critical mass necessary to grow. If funding trends are flattening out, then we expect the bulk of the remaining federal dollars available to go to clean coal and protect the thousands of jobs that will be lost if the coal industry collapses. Those jobs simply aren't there yet in other clean energy industries, and jobs that are created in the clean energy sector will be largely installation and maintenance jobs, not manufacturing. End Comment.
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